BRIEF IN SUPPORT OF PETITION

Opinions of the Courts Below.

The opinion of Judge Soffel of the Common Pleas Court of Allegheny County, Pennsylvania, appears at page 253 a of the record, as tendered to the Supreme Court of Pennsylvania. The opinion of Judge Maxey of the Supreme Court of Pennsylvania is unreported and appears at page 11 b of the record.

Jurisdiction.

The grounds of jurisdiction are:

(1) The judgment to be reviewed, trial court R. 331 a, was entered January 24, 1944 and affirmed R. 11 b June 30, 1944.

(2) The statutes under which the jurisdiction is invoked are 28 U.S.C.A. 344(b) Jud. Code 237(b), as amended and Section 240(a) of the Judicial Code, 28 U.S.C. 347, as amended by the Act of February 13, 1925. Cases believed to sustain the jurisdiction are *Powers-Kennedy Contracting Corp. v. Concrete Mixing, etc. Co.,* 282 U.S. 175, 176; *Saranac Automatic Mach. Corp. v. Wirebounds Patent Co.,* 282 U.S. 704, 705; *U. S. Industrial Chemicals v. Carbide and Carbon Chemicals,* 315 U. S. 668, 669, and *Southland Gasoline v. Bayley,* 319 U.S. 44; *Aquilar v. Standard Oil,* 318 U.S. 724, 726, where there were conflicts of decisions.

Statement.

The facts are sufficiently stated in the petition.

Specifications of Error.

The errors which petitioner will urge, if the writ of certiorari is granted, are that the Supreme Court of the State of Pennsylvania erred in holding:

1. That this Court's decision in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, does not govern the decision of any issue raised in this case, and that the decision in the *Sola* case does not preclude the plaintiff-respondent from invoking the doctrine of estoppel.

2. That to grant the prayer for an accounting does not result in anything which is interdicted by the federal anti-trust laws.

3. That whether the price fixing clause in the license is legal or invalid was not before it.

4. That while a patent is apparently valid and the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty and cannot set up as a defense the actual invalidity of the patent.

5. That petitioner is not entitled to repayment of royalties paid under legal duress and under the provisions of an illegal license agreement.

Summary of Argument.

The points of argument follow the reasons relied upon for the allowance of the writ.

Argument.

The merits of this case are presented in the opinion of the Supreme Court of the State of Pennsylvania (R. 11 b) and also in the petition (p. 7).

POINT I.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With the Decisions of This Court.

In *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, this Court had before it the question of whether or not a licensee was estopped to challenge the validity of the licensed patent in a suit for an accounting where such license contains price fixing provisions, and whether the doctrine of estoppel is so in conflict with the Sherman Act's prohibition of price fixing, that this Court may resolve the question even though its conclusion be contrary to that of a state court. Mr. Chief Justice Stone, speaking for the Court, said (p. 173):

> "Agreements fixing the competitive sales price of articles moving interstate, not within the protection of a patent, are unlawful because prohibited by the Sherman Act.
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> * * * * * * *
>
> "* * * petitioner may assert the illegality of the price-fixing agreement and may offer any competent evidence to establish its illegality, including proof of the invalidity of the patent.

The Supreme Court of Pennsylvania attempts to distinguish the case at bar from the *Sola* case by holding that in the latter the patent owner was attempting to enforce the maintenance of prices fixed in accordance with the terms of the license. If that were the full import of that decision the pronouncement by this Court that patent licenses containing price fixing provisions are illegal and a violation of the Sherman Act, save only when supported by a valid patent, would have no sig-

nificance so long as the patent owner did not request a court to enforce the price fixing provisions *per se*. It was obviously not the intention to distinguish between illegal agreements on the basis of the use made of such agreements. As we read the *Sola* decision, this Court pronounced that the public policy of the Sherman Act condemns the practice of price fixing of articles entering interstate commerce except only when such articles are within the scope of a valid patent monopoly.

Respondent apparently is of a like view because after the trial of this case but before the decision was handed down, it sent petitioner a telegram purporting to cancel the price fixing clauses, paragraphs 5 and 6 of the license agreement.[5]

The trial court, in avoidance of the *Sola* decision, held (R. 268 a) (Conclusion of Law No. 11):

"As between these parties the Jones patent No.

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5 "Pittsburgh Pa Apr 12

ALPINE MACGREGOR CARE ALLOY SPECIALTY CO
2141 WAVERLY ST

REFERRING TO THE LICENSE AGREEMENT EXECUTED NOVEMBER 19 1937 BY AND BETWEEN WESTINGHOUSE ELECTRIC AND MFG CO AND ALPINE MACGREGOR UNDER UNITED STATES PATENT 1651709 WE WISH TO NOTIFY YOU THAT EFFECTIVE APRIL 17 1943 THE WESTINGHOUSE ELECTRIC AND MFG CO HEREBY WAIVES DURING THE TERM OF THE AFORESAID AGREEMENT ARTICLES 5 AND 6 THEREOF RELATING TO PRICES TERMS AND CONDITIONS OF SALE AND HEREBY WITHDRAWS ALL SCHEDULES OF PRICES TERMS AND CONDITIONS OF SALE UNDER SAID AGREEMENT NOW IN FORCE

J B SEASTONE
WESTINGHOUSE ELECTRIC AND MFG CO"

> 1,651,709 is valid, and the license agreement is legal and enforceable."

And further held that if the price fixing clauses are illegal they could be stricken from the agreement by application of the so-called "Blue Pencil Rule", recognized by the Supreme Court of Pennsylvania, *Smith's Appeal,* 113 Pa. 579; *Monongahela, etc. v. Jutte,* 210 Pa. 288, with no effect on the obligation to pay royalty.

It is well settled law that the "Blue Pencil Rule" may not be applied to contracts violating state or federal statutes in contravention of the public policy of such statute. In *Hazelton v. Scheckles,* 202 U.S. 71, 78, Mr. Justice Holmes, speaking for the Supreme Court, said:

> "Every part of the consideration goes equally to the whole promise and therefore, if any part of it is contrary to public policy, the whole promise fails."

In *Western Indemnity Co. v. Crafts,* 240 F. 1, 7, the Circuit Court of Appeals for the Sixth Circuit after quoting from *Hazelton v. Scheckles* said, with reference to a state statute:

> "The statute clearly implies a rule of public policy which is condemnatory of such a scheme, and the effect of this was to taint the very consideration upon which the indemnity contract was founded.
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> * * * * * * *
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> "See also, *McMullen v. Hoffman,* 174 U. S. 639, 654, 19 Sup. Ct. 839, 43 L. Ed. 1117; *Oscanyan v. Arms Co.,* 103 U. S. 261, 268 et seq., 26 L. Ed. 539;

Arnold v. Clifford, Fed. Cas. No. 555, C. C., decided by Mr. Justice Story on circuit."

If the price fixing provisions cannot be stricken then legality of the license can be determined only with reference to the validity of the Jones patent, which is *prima facie* invalid under the law pronounced by this Court because it is for an alleged new use of an admittedly old alloy. In *Holland Furniture Co. v. Perkins Glue Co.,* 277 U.S. 245, Mr. Chief Justice Stone, speaking for this Court, said:

"* * * the attempt to broaden product claims by describing the product exclusively in terms of its use or function is subject to the same vice as is the attempt to describe a patentable device or machine in terms of its function. As a description of the invention it is insufficient and if allowed would extend the monopoly beyond the invention. * * * Cochran v. Badische, 112 U.S. 293."

This is the well settled law of this Court as pronounced in *Miller and others v. Foree,* 116 U.S. 22; *Brown v. Piper,* 91 U.S. 37; *Knapp v. Morss,* 150 U.S. 221; *Aron v. Manhattan Railway Co.,* 132 U.S. 84; *Ansonia Brass & Copper Co. v. Electrical Supply Co.,* 144 U.S. 11.

The rule of law was specifically applied to a composition of matter, such as the alloy here, in *Kaumagraph Co. v. Superior Trade Mark Mfg. Co.,* 72 F. 2d 417, wherein the Second Circuit Court of Appeals said:

"A patent for a composition of matter covers the composition described and claimed, but not every use or function of it. A description of such a composition in terms of its use or function would not be

sufficient to make it patentable. Holland Furniture Co. v. Perkins Glue Co., 277 U.S. 245."[6]

Under the foregoing authorities the mere use of an old alloy for soldering is not patentable invention and the Jones patent herein licensed is *prima facie* invalid.

The claims of the Jones patent are further invalid as not being for any invention described or shown in the patent. The claims originally filed in the Patent Office for the alloys described in the patent, numbered 3, 4, and 8 (R. 208 a), were canceled after rejection and the claims 1 to 4 of the patent here in suit cannot be read without including the subject matter of the canceled claims.

It is fundamental patent law that a patentee is estopped from asserting his patent to cover subject matter canceled from the application during its prosecution in the Patent Office; *Royer v. Coupe,* 146 U.S. 524; *Corbin Cab Lock Co. v. Eagle Lock Co.,* 150 U.S. 38; *Hubbell v. U.S.,* 179 U.S. 77; *Morgan Envelope Co. v.*

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[6]In the prosecution of his application in the United States Patent Office, when rejected on the publication to Gulliver, "Metallic Alloys" (R. 229 a), applicant admitted that the composition of his alloy was old. He said (R. 210 a):

> "Applicant admits that he is not the first to produce a copper phosphorus alloy of this approximate composition but believes that he has discovered new properties of such alloy which make it especially adapted for application in soldering."

Respondent in its brief below made a like admission, as quoted in the footnote p. 5 of the petition, but it contended that the invention resides in the use of the old alloy for soldering.

Albany Perforated Wrapping Paper Co., 152 U.S. 425; *Keystone Driller Co. v. North West Eng. Co.*, 294 U.S. 42.

In *Leggett v. Avery*, 101 U.S. 256, 259, Mr. Justice Bradley, speaking for the Court, said:

> "The allowance of claims once formally abandoned by the applicant, in order to get his letters patent through, is the occasion of immense frauds against the public."

The claims of the patent are further invalid under recent decisions by this Court as failing to comply with Section 4888 of the Revised Statutes. In *General Electric Co. v. Wabash Appliance Corp.*, 304 U.S. 364, the Court said:

> "We need not inquire whether Pacz exhibited invention, or whether his product was anticipated. The claim is invalid on its face. It fails to make a disclosure sufficiently definite to satisfy the requirements of R.S. Section 4888, 35 U.S.C. Sec. 33 * * *."

This case was followed in *United Carbon Co. v. Binney & Smith Co.*, decided by this Court on the same day as the *Sola* case, and reported 55 U.S.P.Q. 581.

Obviously the claims are indistinct both as to the range of proportions of the compositions employed and the temperature range at which they are to be used, none of the compositions or temperature ranges of the claims being described in the patent.

POINT II.

The Decision of the Supreme Court of the State of Pennsylvania Is in Conflict With a Recent Decision of the Seventh Circuit Court of Appeals.

The contention in the Court below that the *Sola* decision does not apply unless the enforcement of a price fixing provision is directly in issue is in conflict with the decision of the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291. In that case the District Court had likewise held that the *Sola Electric* case did not apply because price fixing had not been proven and there was further no proof that respondent attempted to carry out the price fixing provisions. The Court of Appeals, in reversing the District Court, said:

> "The license agreement, Paragraph 11, supra, note 1, did provide for a clear price-fixing arrangement. The appellee will not be heard to say that it really was not in favor of the provisions as to price-fixing contained in a written agreement it had signed, or that it did not practice price-fixing. The important thing is that the appellee had provided by contract for the right to fix prices. The agreement was plain and unambiguous. It is not claimed otherwise. There was no justification for the construction that the District Court put upon it to avoid the scope of the Supreme Court's opinion in the Sola case. By the plain provisions of the license agreement, there were arrangements for price-fixing. This was not a separable provision of the agreement, and it was, like the rest of the agreement, based upon a common consideration and was

a part of the contract after notice of determination, though functus officio as to the future. The agreement was not purged of the deleterious effect of the price-fixing arrangement by notice of termination. The vice lay in its incorporation in the contract at all. A contract containing price-fixing provisions which do not have the protection of a lawfully granted patent monopoly is invalid, being a violation of the Sherman Anti-Trust Act, 15 U.S.C.A. §§ 1-7, 15 note, and no recovery may be had upon it. Continental Wall Paper Co. v. Louis Voight & Sons Co., 212 U.S. 227, 29 S. Ct. 280, 53 L. Ed. 486. Therefore, since the validity of the entire contract depends upon the validity of the patent, it is clear that no estoppel arising out of the contract can prevent an examination of the patent's validity.

"We decide on the authority of the Sola case, supra, that the appellant was not estopped to deny the validity of the patents, because the license agreement which provided for the estoppel carried a provision for price-fixing. For that reason, no estoppel could arise."

The decision by the Supreme Court of Pennsylvania in the case at bar is in direct conflict with the construction given this Court's decision in the *Sola* case by the Seventh Circuit Court of Appeals. Both courts are courts of last resort and we believe this vital federal question is of sufficient public importance to warrant review and clarification by this Court.

POINT III.

The Decision of the Court Below Is in Conflict With the Applicable Decisions of This Court.

The decision by the Court below is in conflict with the decisions of this Court holding that a patent is unenforceable unless the owner confines the use of his patent to the monopoly granted thereby; *Carbice Corp. v. American Patents Corp.,* 283 U.S. 27; *Leitch Mfg. Co. v. Barber Co.,* 302 U.S. 458; *Bauer & Cie v. O'Donnell,* 229 U.S. 1; *Ethyl Gas v. United States,* 309 U.S. 436; *Morton Salt Co. v. Suppiger,* 314 U.S. 488; *Mercoid Corp. v. Mid-Continent Investment Co.,* 320 U.S. 661.

In reliance upon the price fixing provisions, paragraphs 5 and 6 of the agreement, respondent issued not only a distributor price list, Defendant's Ex. L (R. 234 a), but a user price list as well (R. 232 a), and instructed petitioner by letter dated July 11, 1940 (R. 231 a) to enforce both the user and distributor price and discount sheets.[7]

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[7] Excerpt from letter dated July 11, 1940:

"Confirming our conversation with you today, we are handing you herewith copies of our revised User Price List 26-820, pages 1 and 2, and Distributor Price and Discount Sheets 26-826, pages 1, 2 and 3. These modified price and discount sheets are to be made effective August 1, 1940.

"In connection with this price form you of course understand your obligation to observe and follow these prices, terms, and conditions of sale established by Westinghouse in accordance with the provisions of paragraphs 5 of our license agreement with you dated November 16, 1937. These prices are minimum and discounts are maximum and neither is to be bettered either directly or indirectly in any manner whatsoever."

Petitioner testified (R. 85 a to 88 a) that he was requested to maintain the list prices and to get his distributor, Corbett and Alfson, to adhere to the schedule on resale prices, and while respondent attempted by means of a self-serving letter, Plaintiff's Ex. 4 (R. 204 a), to deny that it had required petitioner to conform to the user price, petitioner testified in cross examination (R. 145 a) that respondent tried to force petitioner to maintain the resale price both before and after said letter was written by respondent's counsel.

The practice of maintaining the resale price of patented articles, even where the patent is valid, is condemned by this Court in *Bauer & Cie v. O'Donnell,* 229 U.S. 1, where Mr. Justice Day, speaking for the Court, said (p. 17):

> "* * * it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act."

And in a recent decision, *Ethyl Gas v. United States,* 309 U.S. 436, the Court said:

> "And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."

The facts of this case clearly reveal such conduct by respondent as would render its patent unenforceable,

and by the present suit, respondent is asking the Court to lend aid in the furtherance of its illegal practices.

POINT IV.

Petitioner Is Entitled to Recover Royalties Paid Under Legal Duress.

The license under which respondent seeks an accounting was offered petitioner, MacGregor, in compromise of a patent infringement suit under the Jones patent 1,651,709, brought in the Western District of Pennsylvania March 31, 1937. Petitioner testified (R. 178 a) that at the time of the infringement suit he was not financially able to incur the expense of defending the suit. The patentee's commitments to the Patent Office and his own admission that the alloy purported to be covered by the patent is old and the admission by Seastone of respondent company, (R. 68 a) that petitioner is the only competitor manufacturing copper-phosphorus solders, makes it clear that the motive behind the original infringement suit was to foist upon petitioner a license under which respondent would restrict petitioner's manufacture by controlling his selling price, to his great loss and damage.

Petitioner's investment in his plant and equipment gave him no choice but to accept the license from respondent to protect his property rights and to emancipate his business from the threat of respondent's assertion of its patent monopoly; but when respondent further asserted that a new soldering composition containing silver also came under its patent, petitioner refused to meet respondent's demands and was promptly sued.

Under similar circumstances the courts have held that such payments are compulsory and amount to extortion. In *Corkle v. Maxwell,* Fed. case 3,231, 3 Blatch f. 413, it was held that when payment has been obtained by fraud, oppression or extortion, or when it is made to secure a right which the party was entitled to without payment, but could not obtain otherwise, or when it is made on a wrongful demand to save the party from some great mischief, that he could not otherwise avoid, it is not voluntary and may be recovered back. In the case of *The John Francis,* 184 F. 746, it was held that payment made to emancipate property from an actual and existing duress imposed by a person to whom the money is paid may be recovered.

In *E. R. Squibb & Sons v. Chemical Foundation,* 93 F. 2d 475, the Court of Appeals for the Second Circuit held that royalties paid after expiration of a patent are recoverable. Where as here the patent is clearly invalid and of no force and effect, the acceptance of the royalty payments by Westinghouse cannot be justified any more than in the *Squibb* case.

We submit that the facts and circumstances of the case evidence fraud and legal duress making the royalty payments compulsory upon petitioner and that the sum of $6,029.64 should be repaid by respondent to petitioner.

Conclusion.

The instant suit is legal duress and a fraud upon petitioner and the public. It is a premeditated scheme to deprive petitioner of his rights to the enjoyment of free enterprise and trade and to destroy a competitor.

The decision below imposes an unjust burden for payment and a continuing and effective restraint upon petitioner, and, unless reversed, becomes the machinery for enforcing a fraudulent scheme to abuse the patent privilege.

The petition for a writ of certiorari to the Supreme Court of Pennsylvania should be granted.

Respectfully submitted,

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Counsel for Petitioner.

Pittsburgh, Pa.
August, 1944